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DEPARTMENT FOR EUR/NCE: PLEASE PASS TO NSC FOR ADAM STERLIG

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SUBJECT: GET THE REF OUT: THE PARTIES APPROACH THE REFERENDUM

Classified By: P/E COUNSELOR ERIC V. GAUDIOSI; REASONS 1.4 (B) AND (D)

THE IRE THIS TIME

11. (C) Summary: The parties are getting an early start on the spring political season by finalizing preparations for a March 9 referendum on key elements of the government's austerity package. Riding high on recent polling data, the opposition is casting the referendum as a de facto vote of no confidence in Prime Minister Gyurcsany. In response, the government and the ruling MSZP are working to minimize expectations and to make clear that the referendum does not require - and will not result in - new elections. Even so, the referendum will dominate the political landscape for the coming months and may begin the "permanent campaign" many expect in anticipation of the 2009 European Parliamentary and 2010 national elections. Likely with that in mind, there are disturbing signs that the government will lapse into another spending binge, potentially risking the progress made to date. End Summary.

12. (C) A FIDESZ initiative to both increase pressure on Prime Minister Gyurcsany and to mobilize its own political base, the referendum will allow voters to express their opposition to the government's recent institution of fees for education and health care. With the date set for March 9, early polling indicates that it will receive the 50 percent turnout required to validate the results, and that a clear majority of voters will express their opposition to the government's policies. Some polls put the odds of success at 3 - 1. (Note: Even in the absence of a 50 percent turnout, the law allows for the results to be valid if 25 percent of registered voters - about 2 million people - vote the same way on any question. End Note.) Our contacts) even within the coalition) privately concede that the only question will be the margin of their defeat.

THEN WHAT?

13. (C) That is only partially true. The referendum will expose a major loophole in the Constitution, which does not definitively mandate that the government act in accordance with the referendum's results. After a year of legal appeals regarding the referendum, the Gyurcsany government has publicly committed to honor the results, which should avert another protracted legal debate. Economically, insiders tell us the revenue losses from the cessation of the fees will be manageable) particularly if the government introduces comparable fees for other services.

14. (C) The political consequences are less predictable but potentially more serious. Many in the opposition believe that a major public repudiation of Gyurcsany's policies will serve as a de facto vote of no confidence and give his

internal rivals the pretext to depose him. MSzP MPs, including party praesidium member Attila Mesterhazy, dismiss this scenario, assuring us the party will circle the wagons around the PM despite major differences over the pace and direction of reform.

15. (C) Others are not so sure. The recent departure of key aides from the Prime Minister's Office and renewed talk of a cabinet reshuffle have made the government look rudderless during the winter recess. Minister of Economy Kakosy (SzDSz) has expressed doubt as to whether the MSzP will even stand by the government's health care legislation when it comes up for a revote when Parliament returns February 11, and Gyurcsany's closed-door address to a skeptical party leadership last week reportedly won no new converts. FIDESZ MP Jozsef Szajer believes "Gyurcsany's hardest problem is not convincing the country) it is convincing his own party." At a minimum, many here expect another cabinet reshuffle to install more traditional Socialists and isolate progressives.

THE COALITION: MSZP MINIMIZING; SZDSZ MOBILIZING

16. (C) While emphasizing that the referendum is not an election, the MSzP has undertaken a modest "information campaign" to improve public awareness on education and health care (and been criticized by the opposition for spending public funds in the process). Political analyst Krisztian Szabados observes that the party may use the referendum to subtly distance itself from the Gyurcsany government, and early indications are that the PM will not take a leading role in the government's referendum campaign. Szajer believes the MSzP's goal is to blunt the impact of the referendum by discouraging turnout or exaggerating predictions of the outcome in order to limit the perceived damage. As one observer commented, the party "won't rock the boat for reform and won't rock the vote for the referendum."

17. (C) By contrast, the junior coalition partner SzDSz is attempting to make the case for reform, billing the referendum as an opportunity to "banish the last vestiges of Socialism." Although political scientist Zoltan Kiszelly believes "not even the SzDSz believes a majority will actually vote to pay more," he suspects they want to target those who do as potential converts to bolster their thinning ranks in preparation for the next national elections. With polls still showing them at - or below - the 5 percent figure required for representation in Parliament, the SzDSz is in dire need of broader public support just as polls indicate record numbers of voters disenchanted with all political parties.

FIDESZ: POLITICS OR POLICY?

18. (C) FIDESZ's approach to the referendum campaign remains unclear. Despite more than a year of moving the referendum over a series of legal hurdles, the date strikes some party leaders as too soon. Parliamentary Faction Leader Tibor Navracsics speaks for many in commenting that the opposition wanted the public to have "as many high heating bills as possible before going to the polls." The date is also less than ideal from the government's perspective. As the PM's Foreign and Security Policy Advisor remarked, a referendum just one week before the March 15 anniversary of the 1848 Revolution could invite demonstrations "to celebrate if the opposition wins or to protest if they lose."

19. (C) Ambassador Foley found Party President Orban confident in a January 30 meeting, commenting that "not even a Gyurcsany trip to Washington" would impact on the results. He reportedly told a party gathering this week that FIDESZ will "have the game in hand" if it manages to mobilize its traditional base. After three days of consultations with party leaders and outside consultants in the eastern stronghold of Debrecen, FIDESZ will be prepared to roll out its referendum blitz in the middle of February with a "state of the nation" address by Orban, reportedly followed by

door-to-door campaigning.

¶10. (C) Kiszelly believes the party is still struggling to resolve differences between "those who want to emphasize policy and those who want to emphasize politics (ironically the same word in Hungarian)." As polling shows almost a third of Hungarians ready for "a third force" in politics, FIDESZ will have to calibrate its approach carefully to get out enough voters without creating unrealistic expectations. They will likely look closely at last week's by-election in one of Budapest's municipalities, where the FIDESZ mayoral candidate won 68 percent ... of the 38 percent who turned out. Although they will make the moral argument against Gyurcsany, presenting the referendum as what former FM Martonyi called "the only chance for the people to voice their opposition to the government," FIDESZ is not looking for a mere moral victory.

LONG-TERM MYOPIA

¶11. (C) Comment: As Szajer observed, the referendum will compress the event horizon here as the parties prepare for March 9. But they may remain short-sighted for a long time. With signatures being collected for a fall referendum on health care and elections scheduled in 2009 and 2010, the "permanent campaign" may be underway already. Conceding that Gyurcsany is a far better campaigner than a chief executive, FIDESZ insiders know their full court press is a calculated risk. Unfortunately, the real risk may be more economic than political: if the government opts for another spending binge in an attempt to win back voters, it will fall into the destructive pattern that made the reforms necessary in the first place. Recent expenditure overshoots point in this direction. Whoever wins the referendum, Hungary may end up losing what it can least afford: more time. End Comment.

FOLEY